

FISCAL NOTE

HB 192 - SB 278

February 10, 2005

SUMMARY OF BILL: Provides a franchise and excise (F&E) tax credit equal to 10% of the amount spent by a taxpayer on qualified research expenses for research conducted in Tennessee. Any unused credit could be carried forward for up to 15 years.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures - \$51,200 One-Time

Decrease State Revenues - Exceeds \$46,000,000 FY05-06

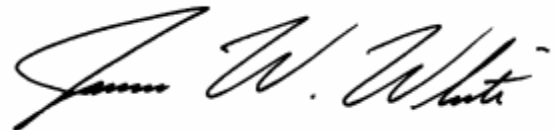
Exceeds \$120,000,000 FY06-07

Assumptions:

- The National Science Foundation estimates that Tennessee R&D expenditures in 2000 were \$1,215,000,000.
- Assuming 3% annual growth, \$1.409 billion would be spent in 2005 and \$1.451 billion would be spent in 2006.
- Due to the effective date of the bill, only two quarters of F&E tax credits would be granted in FY05-06. In FY06-07 and thereafter, tax credits would be granted for the full fiscal year.
- One-third of annual credit carried forward to next fiscal year.
- Other F&E credits must be used prior to 10% R&D credit.
- Estimated decrease in state revenues for FY05-06 exceeds \$46,000,000 = (\$1.409 billion spent X 10% F&E credit X one-half fiscal year X two-thirds of annual credit used).
- Estimated decrease in state revenues for FY06-07, and thereafter, exceeds \$120,000,000 = (\$1.451 billion X 10% F&E credit X two-thirds of annual credit used) + (\$23,459,850 for one-third of FY05-06 credit carried forward).
- One-time expenditures of \$51,200 are for computer programming changes that would be required by the Department of Revenue.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director